

SOUTH HAVEN HOUSING COMMISSION
SOUTH HAVEN, MICHIGAN
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
AND
REPORTS ON COMPLIANCE AND
ON INTERNAL CONTROL

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name South Haven Housing Commission	County
Audit Date 6/30/05	Opinion Date 10/26/05	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

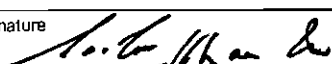
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name) Sailor, Khan & Co			
Street Address P.O. Box 016180		City St. Louis	State MO
Accountant Signature 		ZIP 63105	Date 2/16/06

SOUTH HAVEN HOUSING COMMISSION
South Haven, Michigan

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JUNE 30, 2005

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Sailor

Khan & Co.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
South Haven Housing Commission
South Haven, Michigan

We have audited the accompanying basic financial statements of the South Haven Housing Commission, Michigan, (Commission) as of and for the year ended June 30, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

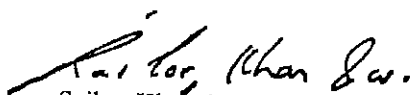
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the South Haven Housing Commission, Michigan, as of June 30, 2005, and the changes in its financial position and its cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2005, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages ii to vii is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information including the Financial Data Schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Sailor, Khan & Co.
October 26, 2005

South Haven Housing Commission

Management's Discussion and Analysis (MD&A)

June 30, 2005

(Unaudited)

This section of the South Haven Housing Commission, Michigan's (Commission) annual financial report presents our management's discussion and analysis of the Commission's financial performance during the fiscal year ended on June 30, 2005. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. Please read and consider the information presented in conjunction with the financial statements as a whole.

For accounting purposes, the Housing Commission is classified as an enterprise fund. Enterprise funds account for activities similar to those found in the private business sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The focus of enterprise funds is on income measurement, which, together with the maintenance of equity, is an important financial indication.

FINANCIAL HIGHLIGHTS

The term "net assets" refers to the difference between assets and liabilities. The Commission's total net assets as of June 30, 2005 were \$3,800,436. The net assets decreased by \$85,105, a decrease of 2.2% from the prior year.

Revenues and contributions for the Commission were \$814,562 for the year ended June 30, 2005. This was an increase of \$33,381 or 4.3% over the prior year.

Expenses for the Commission were \$890,015 for the year ended June 30, 2005. This was an increase of \$26,233 or 3.0% over the prior year.

HUD operating grants was \$155,419 for the year ended June 30, 2005. This was an increase of \$15,245 or 10.9% over the prior year. Capital contributions for the Commission was \$247,872 for the year ended June 30, 2005. This was an increase of \$56,578 or 29.6% over the prior year. Rental revenue for the Commission was \$328,234 for the year ended June 30, 2005, a decrease of \$16,088 or 4.7% from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this *Management Discussion and Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. The Commission's financial statements are presented as fund level financial statements because the Commission only has proprietary funds.

Required Financial Statements

The financial statements of the Housing Commission report information of the Commission using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets includes all the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Commission creditors (liabilities). It also provides the basis for evaluating the capital structure of the Commission and assessing the liquidity and financial flexibility of the Commission.

Management's Discussion and Analysis (MD&A) - Continued

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established *Uniform Financial Reporting Standards* that require Housing Commission's to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) for the year ended June 30, 2005 and is required to be included in the audit reporting package.

FINANCIAL ANALYSIS

Net assets may serve, over time, as a useful indicator of a government's financial position. As stated in the table on the following page, assets exceeded liabilities by \$3,800,436 at the close of the year ended June 30, 2005 down from \$3,885,541 in fiscal year 2004. The decrease in net assets of \$85,105 was primarily due to the change in net assets for the year.

The unrestricted net assets were \$354,026 as of June 30, 2005. This amount may be used to meet the Commission's ongoing obligations. The Commission did not have any net assets classified as restricted that are subject to external restrictions on how they may be used. At the end of the current fiscal year, the Commission is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

Management's Discussion and Analysis (MD&A) - Continued

FINANCIAL ANALYSIS (CONTINUED)

**CONDENSED STATEMENTS OF NET ASSETS
JUNE 30**

	<u>2005</u>	<u>2004</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and other assets	\$ 458,993	\$ 454,510	\$ 4,483	1.0%
Restricted assets	----	36,121	(36,121)	-100.0%
Capital assets	<u>3,446,410</u>	<u>3,508,767</u>	<u>(62,357)</u>	-1.8%
Total Assets	<u>3,905,403</u>	<u>3,999,398</u>	<u>(93,995)</u>	-2.4%
Current liabilities	103,266	110,945	(7,679)	-6.9%
Noncurrent liabilities	<u>1,701</u>	<u>2,912</u>	<u>(1,211)</u>	-41.6%
Total Liabilities	<u>104,967</u>	<u>113,857</u>	<u>(8,890)</u>	-7.8%
Net Assets				
Invested in capital assets	3,446,410	3,508,767	(62,357)	-1.8%
Unrestricted	<u>354,026</u>	<u>376,774</u>	<u>(22,748)</u>	-6.0%
Total Net Assets	<u>\$ 3,800,436</u>	<u>\$ 3,885,541</u>	<u>\$ (85,105)</u>	-2.2%

The largest portion of the Commission's net assets reflects its investment in capital assets (e.g. land, buildings and equipment) less accumulated depreciation. The Commission uses these capital assets to provide service and consequently these assets are not available to liquidate liabilities or other spending.

The 2002 approved capital grant (501-02) totals \$201,805 and was 100.0% expended as of June 30, 2005. The following is a summary of individual grant line items, budget amount, percent expended as of June 30, 2005, and development account:

<u>Line No.</u>	<u>Amount</u>	<u>Percent</u>	<u>Development Account</u>
1406	\$ 11,125	100.0%	Operations
1410	\$ 20,180	100.0%	Administration
1430	\$ 270	100.0%	Fees and Costs
1450	\$ 71,695	100.0%	Site Improvements
1460	\$ 94,578	100.0%	Dwelling Structures
1475	\$ 2,687	100.0%	Nondwelling Equipment
1495	\$ 1,270	100.0%	Relocation Costs

The 2003 approved capital grant (501-03) totals \$166,043 and was 100.0% expended as of June 30, 2005. The following is a summary of individual grant line items, budget amount, percent expended as of June 30, 2005, and development account:

<u>Line No.</u>	<u>Amount</u>	<u>Percent</u>	<u>Development Account</u>
1406	\$ 12,000	100.0%	Operations
1410	\$ 19,799	100.0%	Administration
1430	\$ 2,500	100.0%	Fees and Costs
1450	\$ 5,441	100.0%	Site Improvements
1460	\$ 73,083	100.0%	Dwelling Structures
1465	\$ 24,934	100.0%	Dwelling Equipment
1475	\$ 28,286	100.0%	Nondwelling Equipment

Management's Discussion and Analysis (MD&A) - Continued

FINANCIAL ANALYSIS (CONTINUED)

The 2003 approved capital grant bonus (502-03) totals \$33,091 and was 100.0% expended as of June 30, 2005. The following is a summary of individual grant line items, budget amount, percent expended as of June 30, 2005, and development account:

<u>Line No.</u>	<u>Amount</u>	<u>Percent</u>	<u>Development Account</u>
1430	\$ 7,500	100.0%	Fees and Costs
1450	\$ 11,190	100.0%	Site Improvements
1460	\$ 14,401	100.0%	Dwelling Structures

The 2004 approved capital grant (501-04) totals \$192,293 and was 30.6% expended as of June 30, 2005. The following is a summary of individual grant line items, budget amount, percent expended as of June 30, 2005, and development account:

<u>Line No.</u>	<u>Amount</u>	<u>Percent</u>	<u>Development Account</u>
1406	\$ 14,500	100.0%	Operations
1410	\$ 24,000	97.7%	Administration
1450	\$ 64,993	0.0%	Site Improvements
1460	\$ 87,800	23.7%	Dwelling Structures
1470	\$ 1,000	0.0%	Nondwelling Structures

While the Statement of Net Assets shows the change in financial position of net assets, the Statements of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes.

As can be seen in the table on the following page, total revenues and contributions increased by \$33,381 due to increases in HUD operating grants of \$15,245, capital contributions of \$56,578 and other income of \$11,292. These increase were offset slightly by decreases in rental revenue of \$16,088 and gain on sale of fixed assets of \$34,404. The gain on sale of fixed assets was higher in FY 2004 because the Commission sold two homes versus one home in FY 2005.

Management's Discussion and Analysis (MD&A) - Continued

FINANCIAL ANALYSIS (CONTINUED)

**CONDENSED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
JUNE 30**

	<u>2005</u>	<u>2004</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenues and Contributions				
Operating - non-operating -capital contributions:				
Rental revenue	\$ 328,234	\$ 344,322	(16,088)	-4.7%
HUD operating grants	155,419	140,174	15,245	10.9%
Interest income	10,490	9,732	758	7.8%
Capital Contributions	247,872	191,294	56,578	29.6%
Other income	41,199	29,907	11,292	37.8%
Gain on sale of fixed assets	31,348	65,752	(34,404)	-52.3%
Total Revenues and Contributions	<u>814,562</u>	<u>781,181</u>	<u>33,381</u>	4.3%
Expenses				
Personal services	360,231	328,419	31,812	9.7%
Utilities	62,003	55,382	6,621	12.0%
Operations and maintenance	76,930	100,208	(23,278)	-23.2%
Non routine maintenance	514	600	(86)	-14.3%
Insurance	32,893	32,691	202	0.6%
Payment in lieu of taxes	27,164	29,254	(2,090)	-7.1%
Other supplies and expenses	35,132	37,514	(2,382)	-6.4%
Depreciation	295,148	279,714	15,434	5.5%
Total Expenses	<u>890,015</u>	<u>863,782</u>	<u>26,233</u>	3.0%
Change in net assets	(75,453)	(82,601)	7,148	
Beginning net assets	3,885,541	3,968,142	(82,601)	
Prior period adjustments	<u>(9,652)</u>	<u>----</u>	<u>(9,652)</u>	
Beginning net assets, adjusted	<u>3,875,889</u>	<u>3,968,142</u>	<u>(92,253)</u>	
Ending net assets	\$ <u>3,800,436</u>	\$ <u>3,885,541</u>	\$ <u>(85,105)</u>	

Total expenses increased \$26,233 due to an increases in personal services, utilities and depreciation, which was offset by decrease in operations and maintenance, non-routine maintenance, PILOT and other supplies and expenses.

The occupancy level for this project was 98.7% in FY 2005, down from 99.6% in FY 2004. The Commission rents one of the one-bedroom elderly units to a Senior Services Agency and utilizes one of the three-bedroom family homes as a community police substation.

Management's Discussion and Analysis (MD&A) - Continued

CAPITAL ASSET

Capital Assets - The South Haven Housing Commission's investment in capital assets, as of June 30, 2005 amounts to \$3,446,410 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, equipment and construction in progress.

The total decrease in the Commission's capital assets for the current fiscal year was 1.8% in terms of net book value. Actual expenditures to purchase or construct capital assets were \$360,990 for the year. The Commission has \$133,534 available in Capital Funds to draw down and spend in the future.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Board of Commissioners and Management of the Housing Commission considered many factors when approving the fiscal year 2006 Public Housing budget. The user charges are based on a tenant's income as established by HUD guidelines and are not adjustable. Operating subsidy is based on rental income, other income and utility consumption and costs. The amount of funding is also established and approved by HUD. In projecting the amount of rental income, the Commission considered prior year rental income and occupancy rates. The occupancy rate for FY 2005 was 98.7% and is expected to remain constant. Operating expenses are expected to increase by the economy's inflation rate.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to Judi Ransom, Executive Director, South Haven Housing Commission, 220 Broadway, South Haven, Michigan 49090.

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

STATEMENT OF NET ASSETS

June 30, 2005

ASSETS

Current Assets:

Cash and cash equivalents	
Investments	\$ 75,730.57
Receivable - net of allowances:	346,120.92
Accounts	
Accrued interest	16,339.89
Prepaid expenses	490.63
	<u>20,310.87</u>
Total Current Assets	<u>458,992.88</u>

Noncurrent Assets:

Capital assets:

Land, improvements, and construction in progress	251,559.62
Other capital assets, net of depreciation	<u>3,194,850.51</u>
Total capital assets- net	<u>3,446,410.13</u>
Total Noncurrent Assets	<u>3,446,410.13</u>
Total Assets	<u>\$ 3,905,403.01</u>

See notes to financial statements

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

STATEMENT OF NET ASSETS (CONTINUED)

June 30, 2005

LIABILITIES	
Current Liabilities:	
Accounts Payable	
Accrued salaries, wages and benefits	\$ 33,366.37
Accrued compensated absences	5,708.91
Tenant security deposit liability	23,285.05
Deferred revenues	36,301.15
	<u>4,604.75</u>
Total Current Liabilities	<u>103,266.23</u>
Noncurrent Liabilities:	
Accrued compensated absences	
Deferred credits and escrow deposits	1,230.66
	<u>470.00</u>
Total Noncurrent Liabilities	<u>1,700.66</u>
Total Liabilities	<u>104,966.89</u>
NET ASSETS	
Invested in capital assets	
Unrestricted	3,446,410.13
	<u>354,025.99</u>
Total Net Assets	<u>3,800,436.12</u>
Total Liabilities and Net Assets	<u>\$ 3,905,403.01</u>

See notes to financial statements

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

For Year Ended June 30, 2005

Operating Revenues:	
Rental revenue	
Operating subsidies- HUD grants	\$ 328,234.53
Other revenues	155,418.58
	<u>41,199.15</u>
Total operating revenues	<u>524,852.26</u>
Operating Expenses:	
Personal services	
Utilities	360,231.01
Operations and maintenance	62,003.11
Non routine maintenance	76,929.90
Insurance	513.95
Payment in lieu of taxes	32,892.70
Other supplies and expenses	27,163.69
Depreciation	35,132.29
	<u>295,147.80</u>
Total operating expenses	<u>890,014.45</u>
Operating income (loss)	<u>(365,162.19)</u>
Non-operating revenues (expenses):	
Interest and investment earnings	
Gain (Loss) on sale of fixed assets	10,489.74
	<u>31,347.65</u>
Net non-operating revenues (expenses)	<u>41,837.39</u>
Income (loss) before other revenues, expenses, gains, losses and transfers	(323,324.80)
Capital contributions	<u>247,872.47</u>
Change in net assets	(75,452.33)
Net assets at beginning of year	
Prior period error corrections	3,885,540.79
	<u>(9,652.34)</u>
Net assets adjusted at beginning of year	<u>3,875,888.45</u>
Net assets at end of year	<u>\$ 3,800,436.12</u>

See notes to financial statements

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

STATEMENT OF CASH FLOWS

For Year Ended June 30, 2005

Cash flows from operating activities:

Cash received from tenants	
Cash received from HUD grants- operating	\$ 327,648.93
Cash received from other operating activities	155,418.58
Cash payments for goods and services	50,548.48
Cash payments to employees-salaries	(204,676.18)
Cash payments to employees-compensated absences	(284,618.99)
Cash payments for employee benefit contributions	3,118.88
Cash payments for in lieu of property taxes	(84,220.79)
	<u>(29,253.68)</u>

Net cash provided (used) by operating activities

(66,034.77)

Cash flows from capital and related financing activities:

Capital contributions	
Proceeds from sale of assets	272,849.68
Receipts (payments) from deferred credits and escrow deposits	38,671.00
Payments for capital assets	470.00
	<u>(253,477.09)</u>

Net cash (used) for capital and related financing activities

58,513.59

Cash flows from investing activities:

Proceeds from sale of (payments) for investments	
Interest and dividends	(78,785.55)
Receipts (payments) from tenant security deposits	10,197.65
	<u>179.65</u>

Net cash provided (used) from investing activities

(68,408.25)

Net increase (decrease) in cash and cash equivalents

Cash and cash equivalents at beginning of year

(75,929.43)

Cash and cash equivalents at end of year

151,660.00

\$ 75,730.57

Noncash Investing, Capital and Financing Activities:

Acquisition of capital assets on account

\$ 79.73

See notes to financial statements

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

STATEMENT OF CASH FLOWS (CONTINUED)

For Year Ended June 30, 2005

**Reconciliation of operating income (loss) to net cash
provided (used) by operating activities:**

Operating income (loss)	
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	\$ (365,162.19)
Depreciation expense	
Changes in assets and liabilities:	295,147.80
Receivables	
Prepaid expenses	6,960.53
Accounts and other payables	2,848.69
Deferred revenues	(2,142.91)
Compensated absences	1,803.20
Accrued expenses	3,118.88
	<u>(8,608.77)</u>
Net cash provided (used) by operating activities	\$ <u><u>(66,034.77)</u></u>

See notes to financial statements

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 - Summary of Significant Accounting Policies

The South Haven Housing Commission (Commission) is a non-profit entity established to provide low-rent housing, under the low rent program Annual Contributions Contract for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other Federal agencies.

The Housing Commission complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Housing Commission the option of electing to apply FASB pronouncements issued after November 30, 1989, except for those that conflict with or contradict a GASB pronouncement. The Housing Commission has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

1a. Financial Reporting Entity

The Housing Commission's financial reporting entity comprises the following:

Primary Government:

Housing Commission

In determining the financial reporting entity, the Housing Commission complies with the provisions of GASB Statement No. 14 as amended by GASB no 39, "The Financial Reporting Entity," and includes all component units, if any, of which the Housing Commission appointed a voting majority of the units' board; the Housing Commission is either able to impose its will on the unit or a financial benefit or burden relationship exists. There are no agencies, organizations or activities meeting this criteria.

1b. Basis of Presentation

Financial statements of the reporting entity's programs are organized and reported as an enterprise fund and are accounted for by providing a set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Enterprise funds are used to account for business-like activities provided to its tenants. These activities are financed primarily by user charges and/or Federal funding and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes all of the Commission's programs as an enterprise fund.

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1b. Basis of Presentation (Continued)

Following is a description of the Commission's programs:

Program	Brief Description
Low Rent	Accounts for activities of the Public and Indian Housing program which HUD provides an annual subsidy to help public housing agencies (PHAs) pay some of the cost of operating and maintaining public housing units.
Capital Fund Program	Accounts for activities of the Capital Fund which provides funds to housing authorities to modernize public housing developments.

1c. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the financial statements, the "economic resources" measurement focus is used as follows:

- ▶ The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

In the financial statements, the proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1d. Assets, Liabilities, and Equity

Cash and Investments

For the purpose of the Statement of Net Assets, "cash and cash equivalents" includes all demand, savings accounts, and certificates of deposits or short-term investments with an original maturity of three months or less. For the purpose of the Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value except for short-term U.S. Treasury obligations, if any, with a remaining maturity at the time of purchase of one year or less. Those investments, if any, are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Notes 2b. and 3a.

Interprogram Receivables and Payables

During the course of operations, numerous transactions occur within individual programs that may result in amounts owed between these programs. Offsetting interprograms are eliminated for financial statement presentation.

Receivables

Receivables consist of all revenues earned at year-end and not yet received. Tenant accounts receivable, accrued interest receivable and accounts receivable from U.S. Department of Housing and Urban Development compose the majority of receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Inventories

Inventories are valued at average cost, and consist of expendable supplies held for consumption. The cost of inventories are recorded as expenditures when consumed, rather than when purchased.

Budgets and Budgetary Accounting

The Commission adopts a formal operating budget each year for its operating programs and on a project length basis for its capital expenditures which are approved by the Board of Commissioners and submitted to the Department of Housing and Urban Development for their approval, if required.

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1d. Assets, Liabilities, and Equity (Continued)

Estimates and Assumptions

The Commission uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses.

Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) is as follows:

In the financial statements, capital assets purchased or acquired with an original cost of \$500 or more are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense depending on the program where the asset is shown, in the Statement of Revenues, Expenses and Changes in Net Assets, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	20 - 40	years
Furniture, equipment and machinery - dwelling	7	years
Furniture, equipment and machinery - administration	5 - 7	years
Leasehold improvements	5 - 40	years

Compensated Absences

The Housing Commission's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as short-term and long-term liabilities based on historical trends. In accordance with the provisions of GASB Statement No. 16, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 1 - Summary of Significant Accounting Policies (Continued)

1d. Assets, Liabilities, and Equity

Equity Classifications

Equity is classified as net assets and displayed in two components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets. The Commission had no related debt.
- b. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

1e. Revenues, Expenditures, and Expenses

Operating Revenues and Expenses

Operating revenues and expenses are those that result from providing services and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Non-operating revenues and expenses are those that are not operating in nature.

Interfund Transfers

For the purposes of the Statement of Revenues, Expenses and Change in Net Assets, all interfund transfers between individual programs, if any, have been eliminated.

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 2 - Stewardship, Compliance, and Accountability

The Commission and its component units, if any, are subject to various federal, state, and local laws and contractual regulations. An analysis of the Commission's compliance with significant laws and regulations and demonstration of its stewardship over Commission resources follows.

2a. Program Accounting Requirements

The Commission's complies with all state and local laws and regulations requiring the use of separate programs. The programs used by the Commission are as follows:

Program	Required By
Public and Indian Housing	U.S. Department of Housing and Urban Development
Capital Fund Program	U.S. Department of Housing and Urban Development

2b. Deposits and Investments Laws and Regulations

In accordance with state law, all uninsured deposits of the Commission in financial institutions must be secured with acceptable collateral valued at the lower of market or par. All financial institutions pledging collateral to the Commission must have a written collateral agreement. As reflected in Note 3a., all deposits were fully insured or collateralized.

Investments of the Commission are limited by state law to the following:

- a. Direct obligations of the U.S. Government or its agencies or instrumentalities to which acceptable collateral is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral.

2c. Revenue Restrictions

The Commission has various restrictions placed over certain revenue sources. The primary restricted revenue sources include:

Revenue Source	Legal Restrictions of Use
Capital Fund Program	Modernization

For the year ended June 30, 2005, the Commission complied, in all material respects, with these revenue restrictions.

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 3 - Detail Notes on Transaction Classes/Accounts

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

3a. Cash and Investments

Deposits

The Commission's policies regarding deposits of cash are discussed in Note 1d. The table presented below is designed to disclose the level of custody credit risk assumed by the Commission based upon how its deposits were insured or secured with collateral at June 30, 2005. The categories of credit risk are defined as follows:

Category 1—Insured by FDIC or collateralized with securities held by the Commission (or public trust) or by its agent in its name

Category 2—Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Commission's name

Category 3—Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Commission's name; or collateralized with no written or approved collateral agreement

Type of Deposits	Total Bank Balance	Custody Credit Risk			Total Carrying Value
		Category 1	Category 2	Category 3	
Demand deposits	\$ <u>105,725.09</u>	\$ <u>105,725.09</u>	\$ <u>----</u>	\$ <u>----</u>	\$ <u>75,630.57</u>
Total Deposits	\$ <u><u>105,725.09</u></u>	\$ <u><u>105,725.09</u></u>	\$ <u><u>----</u></u>	\$ <u><u>----</u></u>	\$ <u><u>75,630.57</u></u>

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)

3a. Cash and Investments (Continued)

Investments

The Commission's policies and applicable laws regarding investments are discussed in Notes 1d. and 2b. The table presented below is designed to disclose the level of market risk and custody credit risk assumed by the Commission (or public trust) based upon whether the investments are insured or registered and upon who holds the security at June 30, 2005. The categories of credit risk are defined as follows:

Category 1—Insured or registered with securities held by the Commission or its agent in the Commission's name

Category 2—Uninsured and unregistered with securities held by counterparty's trust department or agent in the Commission's name

Category 3—Uninsured and unregistered with securities held by the counterparty or by its trust department or agent but not in the Commission's name

	Custody Credit Risk			Carrying Amount	Fair Value
	Category 1	Category 2	Category 3		
Certificate of Deposit	\$ 346,120.92	\$ ----	\$ ----	\$ 346,120.92	\$ 346,120.92
	<u>\$ 346,120.92</u>	<u>\$ ----</u>	<u>\$ ----</u>	<u>\$ 346,120.92</u>	<u>\$ 346,120.92</u>

3b. Accounts Receivable

Receivables detail at June 30, 2005, is as follows:

Tenant accounts receivable	\$ 2,896.34
Allowance for doubtful accounts	<u>----</u>
Tenants accounts receivable - net	2,896.34
Accounts receivable - HUD	<u>13,443.55</u>
	<u>\$ 16,339.89</u>

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)

3c. Capital Assets

Capital asset activity for the year ended June 30, 2005, was as follows:

	Balance July 1, 2004	Additions	(Retirements)	Balance June 30, 2005
Land	\$ 244,487.75	\$ -----	\$ (15,036.00)	\$ 229,451.75
Building	5,972,497.77	235,475.68	(9,582.60)	6,198,390.85
Furniture, equipment and machinery- administration	53,774.90	37,188.46	(9,652.34)	81,311.02
Leasehold improvements	477,485.37	88,326.16	(7,345.82)	558,465.71
Construction in progress	124,429.01	-----	(102,321.14)	22,107.87
	6,872,674.80	\$ <u>360,990.30</u>	\$ <u>(143,937.90)</u>	7,089,727.20
Accumulated depreciation	3,363,908.00	\$ <u>295,147.80</u>	\$ <u>(15,738.73)</u>	3,643,317.07
Total	\$ <u>3,508,766.80</u>			\$ <u>3,446,410.13</u>

3d. Accounts Payable

Payable detail at June 30, 2005, is as follows:

Vendors	\$ 6,202.68
Other government - PILOT	<u>27,163.69</u>
	\$ <u>33,366.37</u>

3e. Compensated Absences

Accumulated unpaid compensated absences are accrued. The liability for compensated absences at June 30, 2005 is \$24,515.71.

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)

3f. Non-current Liabilities

As of June 30, 2005, the non-current liabilities are comprised of the following:

Deferred credits	
Accrued compensated absences - non current portion	\$ 470.00
	<u>1,230.66</u>
Total	<u>\$ 1,700.66</u>

The following is a summary of changes in non-current liabilities for the year ended June 30, 2005:

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005	Amounts Due within One Year
Deferred credits	\$ ----	\$ 470.00	\$ ----	\$ 470.00	\$ ----
Accrued compensated absences	<u>2,912.36</u>	<u>----</u>	<u>1,681.70</u>	<u>1,230.66</u>	<u>23,285.05</u>
Total	<u>\$ 2,912.36</u>	<u>\$ 470.00</u>	<u>\$ 1,681.70</u>	<u>\$ 1,700.66</u>	<u>\$ 23,285.05</u>

3g. Interprogram Transactions and Balances

Operating Transfers

	Transfers in	Transfers out
Public and Indian Housing - Low Rent Capital Fund Program	\$ 14,500.00	\$ ----
	<u>----</u>	<u>14,500.00</u>
Total	<u>\$ 14,500.00</u>	<u>\$ 14,500.00</u>

Transfers are used to move revenues from the program that is authorized to transfer them to the program in accordance with budgetary authorizations.

Interprogram Receivable/Payable

Public and Indian Housing - Low Rent Capital Fund Program	\$ 13,017.64
	<u>(13,017.64)</u>
Total	<u>\$ ----</u>

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 3 - Detail Notes on Transaction Classes/Accounts (Continued)

3h. Unrestricted net assets - Prior-period Error Corrections

Following is the composite of error corrections:

1. Furniture, equipment and machinery - administration - correct prior year fixed assets	\$ <u>(9,652.34)</u>
Totals	\$ <u><u>(9,652.34)</u></u>

NOTE 4 - Other Notes

4a. Employee Retirement Plan

The Housing Commission participates in the City of South Havens' pension plan, the Municipal Employees' Retirement System, (MERS). MERS is a Defined Benefit Program which operates within the Michigan Department and Budget, Bureau of Retirement Systems. The pension covers all eligible full-time employees and requires a minimum contribution by the employee. At December 31, 2004, the date of the last completed actuarial evaluation, the City's Department Heads category (the Housing Commission is included) termination liability for retirement benefits is \$4,442,807 (employer and employee combined). Valuation assets available to meet this obligation were \$5,071,218. The Department Heads (which includes the Housing Commission) employees contributed \$576,252 and the employer did not have to contribute during the calendar year 2004. The City's Department Heads (which includes the Housing Commission) has twenty nine(29) active members, one(1) vested former member, and twelve(12) retirees and beneficiaries. There is an over fund balance of \$628,411 as of December 31, 2004. Statistical information concerning the plan can be obtained from MERS, which is contained in their annual plan.

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005

NOTE 4 - Other Notes (Continued)

4b. Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees health and life; and natural disasters. The Commission manages these various risks of loss as follows:

Type of Loss	Method Managed
a. Torts, errors and omissions	Purchased insurance with Housing Authority Insurance Group
b. Injuries to employees (workers' compensation)	Purchased insurance with Michigan Municipal League Worker's Compensation Fund; Claims are administered by Michigan Municipal League Worker's Compensation Fund
c. Physical property loss and natural disasters	Purchased commercial insurance with \$5,000 deductibles.
d. Health and life	Purchased health insurance with Blue Cross Blue Shield of Michigan; Life insurance is provided by Fortis Assurant.

Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

Commitments—Construction

At June 30, 2005, the Commission had the following pending construction projects in progress:

	<u>Funds Approved</u>	<u>Funds Expended - Project to Date</u>
CFP 501-04	\$ <u>192,293.00</u>	\$ <u>58,759.45</u>
	\$ <u>192,293.00</u>	\$ <u>58,759.45</u>

Contingencies

The Commission is subject to possible examination by Federal and State authorities who determine compliance with terms, conditions, laws and regulations governing other grants given to the Commission in the current and prior years. No significant violations of finance-related legal or contractual provisions occurred.

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

COMBINING STATEMENT OF NET ASSETS BY PROGRAM

June 30, 2005

	Low Rent Program	Capital Fund Program	Totals
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 75,730.57	\$ -----	\$ 75,730.57
Investments	346,120.92	-----	346,120.92
Receivable - net of allowances:			
Accounts	2,896.34	13,443.55	16,339.89
Accrued interest	490.63	-----	490.63
Due from (to) interprogram	13,017.64	(13,017.64)	-----
Prepaid expenses	<u>20,310.87</u>	<u>-----</u>	<u>20,310.87</u>
Total Current Assets	<u>458,566.97</u>	<u>425.91</u>	<u>458,992.88</u>
Noncurrent Assets:			
Capital assets:			
Land, improvements, and construction in progress	229,451.75	22,107.87	251,559.62
Other capital assets, net of depreciation	<u>2,853,654.42</u>	<u>341,196.09</u>	<u>3,194,850.51</u>
Total capital assets- net	<u>3,083,106.17</u>	<u>363,303.96</u>	<u>3,446,410.13</u>
Total Noncurrent Assets	<u>3,083,106.17</u>	<u>363,303.96</u>	<u>3,446,410.13</u>
Total Assets	<u>\$ 3,541,673.14</u>	<u>\$ 363,729.87</u>	<u>\$ 3,905,403.01</u>

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

COMBINING STATEMENT OF NET ASSETS BY PROGRAM (CONTINUED)

June 30, 2005

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Totals</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 33,286.64	\$ 79.73	\$ 33,366.37
Accrued salaries, wages and benefits	5,362.73	346.18	5,708.91
Accrued compensated absences	23,285.05	-----	23,285.05
Tenant security deposit liability	36,301.15	-----	36,301.15
Deferred revenues	<u>4,604.75</u>	<u>-----</u>	<u>4,604.75</u>
Total Current Liabilities	<u>102,840.32</u>	<u>425.91</u>	<u>103,266.23</u>
Noncurrent Liabilities:			
Accrued compensated absences	1,230.66	-----	1,230.66
Deferred credits and escrow deposits	<u>470.00</u>	<u>-----</u>	<u>470.00</u>
Total Noncurrent Liabilities	<u>1,700.66</u>	<u>-----</u>	<u>1,700.66</u>
Total Liabilities	<u>104,540.98</u>	<u>425.91</u>	<u>104,966.89</u>
NET ASSETS			
Invested in capital assets	3,083,106.17	363,303.96	3,446,410.13
Unrestricted	<u>354,025.99</u>	<u>-----</u>	<u>354,025.99</u>
Total Net Assets	<u>3,437,132.16</u>	<u>363,303.96</u>	<u>3,800,436.12</u>
Total Liabilities and Net Assets	<u>\$ 3,541,673.14</u>	<u>\$ 363,729.87</u>	<u>\$ 3,905,403.01</u>

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

**COMBINING STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN FUND NET ASSETS BY PROGRAM**

For Year Ended June 30, 2005

	Low Rent Program	Capital Fund Program	Totals
Operating Revenues:			
Rental revenue	\$ 328,234.53	\$ -----	\$ 328,234.53
Operating subsidies- HUD grants	118,767.00	36,651.58	155,418.58
Other revenues	<u>41,199.15</u>	<u>-----</u>	<u>41,199.15</u>
Total operating revenues	<u>488,200.68</u>	<u>36,651.58</u>	<u>524,852.26</u>
Operating Expenses:			
Personal services	338,079.43	22,151.58	360,231.01
Utilities	62,003.11	-----	62,003.11
Operations and maintenance	76,929.90	-----	76,929.90
Non routine maintenance	513.95	-----	513.95
Insurance	32,892.70	-----	32,892.70
Payment in lieu of taxes	27,163.69	-----	27,163.69
Other supplies and expenses	35,132.29	-----	35,132.29
Depreciation	<u>284,296.25</u>	<u>10,851.55</u>	<u>295,147.80</u>
Total operating expenses	<u>857,011.32</u>	<u>33,003.13</u>	<u>890,014.45</u>
Operating income (loss)	<u>(368,810.64)</u>	<u>3,648.45</u>	<u>(365,162.19)</u>
Non-operating revenues (expenses):			
Interest and investment earnings	10,489.74	-----	10,489.74
Gain (Loss) on sale of fixed assets	<u>31,347.65</u>	<u>-----</u>	<u>31,347.65</u>
Net non-operating revenues (expenses)	<u>41,837.39</u>	<u>-----</u>	<u>41,837.39</u>
Income (loss) before other revenues, expenses, gains, losses and transfers	(326,973.25)	3,648.45	(323,324.80)

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

**COMBINING STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN FUND NET ASSETS BY PROGRAM (CONTINUED)**

For Year Ended June 30, 2005

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Totals</u>
Capital contributions	-----	247,872.47	247,872.47
Operating transfers in (out)	<u>14,500.00</u>	<u>(14,500.00)</u>	<u>-----</u>
Change in net assets	(312,473.25)	237,020.92	(75,452.33)
Net assets at beginning of year	3,598,537.83	287,002.96	3,885,540.79
Prior period error corrections	<u>(9,652.34)</u>	<u>-----</u>	<u>(9,652.34)</u>
Net assets adjusted at beginning of year	3,588,885.49	287,002.96	3,875,888.45
Equity transfers	<u>160,719.92</u>	<u>(160,719.92)</u>	<u>-----</u>
Net assets at end of year	<u>\$ 3,437,132.16</u>	<u>\$ 363,303.96</u>	<u>\$ 3,800,436.12</u>

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

COMBINING STATEMENT OF CASH FLOWS BY PROGRAM

For Year Ended June 30, 2005

	Low Rent Program	Capital Fund Program	Totals
Cash flows from operating activities:			
Cash received from tenants	\$ 327,648.93	\$ -----	\$ 327,648.93
Cash received from HUD grants- operating	118,767.00	36,651.58	155,418.58
Cash received from other operating activities	50,548.48	-----	50,548.48
Cash payments for goods and services	(204,676.18)	-----	(204,676.18)
Cash payments to employees-salaries	(261,758.60)	(22,860.39)	(284,618.99)
Cash payments to employees-compensated absences	3,118.88	-----	3,118.88
Cash payments for employee benefit contributions	(84,220.79)	-----	(84,220.79)
Cash payments for in lieu of property taxes	(29,253.68)	-----	(29,253.68)
	<u>(79,825.96)</u>	<u>13,791.19</u>	<u>(66,034.77)</u>
Net cash provided (used) by operating activities			
Cash flows from noncapital financing activities:			
Operating transfers in (out)	<u>14,500.00</u>	<u>(14,500.00)</u>	<u>-----</u>
Net cash provided (used) from non capital financing activities	<u>14,500.00</u>	<u>(14,500.00)</u>	<u>-----</u>
Cash flows from capital and related financing activities:			
Capital contributions	-----	272,849.68	272,849.68
Receipts (payments) from interprograms	20,558.13	(20,558.13)	-----
Proceeds from sale of assets	38,671.00	-----	38,671.00
Receipts (payments) from deferred credits and escrow deposits	470.00	-----	470.00
Payments for capital assets	(1,894.35)	(251,582.74)	(253,477.09)
	<u>57,804.78</u>	<u>708.81</u>	<u>58,513.59</u>
Net cash (used) for capital and related financing activities			
Cash flows from investing activities:			
Proceeds from sale of (payments) for investments	(78,785.55)	-----	(78,785.55)
Interest and dividends	10,197.65	-----	10,197.65
Receipts (payments) from tenant security deposits	179.65	-----	179.65
	<u>(68,408.25)</u>	<u>-----</u>	<u>(68,408.25)</u>
Net cash provided (used) from investing activities			

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

COMBINING STATEMENT OF CASH FLOWS BY PROGRAM (CONTINUED)

For Year Ended June 30, 2005

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Totals</u>
Net increase (decrease) in cash and cash equivalents	(75,929.43)	----	(75,929.43)
Cash and cash equivalents at beginning of year	<u>151,660.00</u>	<u>----</u>	<u>151,660.00</u>
Cash and cash equivalents at end of year	\$ <u><u>75,730.57</u></u>	\$ <u><u>----</u></u>	\$ <u><u>75,730.57</u></u>
Noncash Investing, Capital and Financing Activities:			
Acquisition of capital assets on account	\$ <u><u>----</u></u>	\$ <u><u>79.73</u></u>	\$ <u><u>79.73</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (368,810.64)	\$ 3,648.45	\$ (365,162.19)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	284,296.25	10,851.55	295,147.80
Changes in assets and liabilities:			
Receivables	6,960.53	----	6,960.53
Prepaid expenses	2,848.69	----	2,848.69
Accounts and other payables	(2,142.91)	----	(2,142.91)
Deferred revenues	1,803.20	----	1,803.20
Compensated absences	3,118.88	----	3,118.88
Accrued expenses	<u>(7,899.96)</u>	<u>(708.81)</u>	<u>(8,608.77)</u>
Net cash provided (used) by operating activities	\$ <u><u>(79,825.96)</u></u>	\$ <u><u>13,791.19</u></u>	\$ <u><u>(66,034.77)</u></u>

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

PHA'S STATEMENT AND CERTIFICATION OF
CAPITAL FUND PROGRAM COSTS

June 30, 2005

1. Actual Capital Fund Program costs are as follows:

	<u>CFP 501-02</u>
Funds approved	
Funds expended	\$ 201,805.00
	<u>201,805.00</u>
Excess of Funds Approved	\$ <u> </u>
Funds advanced	
Funds expended	\$ 201,805.00
	<u>201,805.00</u>
Excess (deficiency) of Funds Advanced	\$ <u> </u>

2. The costs as shown on the Actual Cost Certificate dated July 1, 2005 submitted to HUD for approval is in agreement with the PHA's records as of June 30, 2005.
3. All costs have been paid and all related liabilities have been discharged through payments.

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

PHA'S STATEMENT AND CERTIFICATION OF
CAPITAL FUND PROGRAM COSTS

June 30, 2005

1. Actual Capital Fund Program costs are as follows:

	<u>CFP 501-03</u>
Funds approved	
Funds expended	\$ 166,043.00
	<u>166,043.00</u>
Excess of Funds Approved	\$ <u> </u>
Funds advanced	
Funds expended	\$ 166,043.00
	<u>166,043.00</u>
Excess (deficiency) of Funds Advanced	\$ <u> </u>

2. The costs as shown on the Actual Cost Certificate dated July 1, 2005 submitted to HUD for approval is in agreement with the PHA's records as of June 30, 2005.
3. All costs have been paid and all related liabilities have been discharged through payments.

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

FINANCIAL DATA SCHEDULE

Year Ended June 30, 2005

FDS Line Item No.	Low Rent Program 14.850a	Capital Fund Program 14.872	Total
Assets:			
Current Assets:			
Cash			
111 Cash-unrestricted	\$ 75,730.57	\$ -----	\$ 75,730.57
100 Total cash	<u>75,730.57</u>	<u>-----</u>	<u>75,730.57</u>
Accounts and notes receivable:			
122 Accounts receivable-HUD	-----	13,443.55	13,443.55
126 Accounts receivable- tenants-dwelling rents	2,896.34	-----	2,896.34
129 Accrued interest receivable	<u>490.63</u>	<u>-----</u>	<u>490.63</u>
120 Total receivables, net of allowance for doubtful accounts	<u>3,386.97</u>	<u>13,443.55</u>	<u>16,830.52</u>
Current investments:			
131 Investments-unrestricted	346,120.92	-----	346,120.92
142 Prepaid expenses and other assets	20,310.87	-----	20,310.87
144/ (347) Interprogram due from	<u>13,017.64</u>	<u>(13,017.64)</u>	<u>-----</u>
150 Total current assets	<u>458,566.97</u>	<u>425.91</u>	<u>458,992.88</u>
Noncurrent Assets:			
Fixed assets:			
161 Land	229,451.75	-----	229,451.75
162 Buildings	5,964,809.52	233,581.33	6,198,390.85
164 Furniture, equipment and machinery- administration	51,056.02	30,255.00	81,311.02
165 Leasehold improvements	470,139.55	88,326.16	558,465.71
166 Accumulated depreciation	(3,632,350.67)	(10,966.40)	(3,643,317.07)
167 Construction in progress	<u>-----</u>	<u>22,107.87</u>	<u>22,107.87</u>
160 Total fixed assets, net of accumulated depreciation	<u>3,083,106.17</u>	<u>363,303.96</u>	<u>3,446,410.13</u>
180 Total noncurrent assets	<u>3,083,106.17</u>	<u>363,303.96</u>	<u>3,446,410.13</u>
190 Total Assets	<u>\$ 3,541,673.14</u>	<u>\$ 363,729.87</u>	<u>\$ 3,905,403.01</u>

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2005

FDS Line Item No.	Low Rent Program 14.850a	Capital Fund Program 14.872	Total
Liabilities and Equity:			
Liabilities:			
Current Liabilities:			
312 Accounts payable < 90 days	\$ (6,122.95)	\$ (79.73)	\$ (6,202.68)
321 Accrued wage / payroll taxes payable	(5,362.73)	(346.18)	(5,708.91)
322 Accrued compensated absences- current portion	(23,285.05)	----	(23,285.05)
333 Accounts payable -other government	(27,163.69)	----	(27,163.69)
341 Tenant security deposits	(36,301.15)	----	(36,301.15)
342 Deferred revenues	<u>(4,604.75)</u>	<u>----</u>	<u>(4,604.75)</u>
310 Total current liabilities	<u>(102,840.32)</u>	<u>(425.91)</u>	<u>(103,266.23)</u>
Noncurrent Liabilities:			
353 Noncurrent liabilities-other	(470.00)	----	(470.00)
354 Accrued compensated absences- non current portion	<u>(1,230.66)</u>	<u>----</u>	<u>(1,230.66)</u>
350 Total noncurrent liabilities	<u>(1,700.66)</u>	<u>----</u>	<u>(1,700.66)</u>
300 Total liabilities	<u>(104,540.98)</u>	<u>(425.91)</u>	<u>(104,966.89)</u>
Equity:			
508.1 Investment in capital assets , Net of Related Debt	<u>(3,083,106.17)</u>	<u>(363,303.96)</u>	<u>(3,446,410.13)</u>
512.1 Unrestricted Net Assets	<u>(354,025.99)</u>	<u>----</u>	<u>(354,025.99)</u>
600 Total Liabilities and Equity	<u>\$ (3,541,673.14)</u>	<u>\$ (363,729.87)</u>	<u>\$ (3,905,403.01)</u>

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2005

FDS Line Item No.	Low Rent Program 14.850a	Capital Fund Program 14.872	Total
Revenue:			
703 Net rental revenue	\$ (330,327.00)	\$ -----	\$ (330,327.00)
704 Tenant revenue-other	(1,303.01)	-----	(1,303.01)
705 Total tenant revenue	<u>(331,630.01)</u>	<u>-----</u>	<u>(331,630.01)</u>
706 HUD PHA operating grants	(118,767.00)	(36,651.58)	(155,418.58)
706.1 HUD PHA capital grants	-----	(247,872.47)	(247,872.47)
711 Investment income-unrestricted	(10,489.74)	-----	(10,489.74)
715 Other revenue	(41,199.15)	-----	(41,199.15)
716 Gain on sale of fixed assets	<u>(31,347.65)</u>	<u>-----</u>	<u>(31,347.65)</u>
700 Total revenue	<u>(533,433.55)</u>	<u>(284,524.05)</u>	<u>(817,957.60)</u>
Expenses:			
Administrative			
911 Administrative salaries	136,668.33	22,151.58	158,819.91
912 Auditing fees	2,300.00	-----	2,300.00
915 Employee benefit contributions-administrative	46,612.78	-----	46,612.78
916 Other operating-administrative	28,262.07	-----	28,262.07
Tenant services			
924 Tenant services-other	3,468.58	-----	3,468.58
Utilities			
931 Water	10,407.58	-----	10,407.58
932 Electricity	25,617.99	-----	25,617.99
933 Gas	25,977.54	-----	25,977.54
Ordinary maintenance and operation			
941 Ordinary maintenance and operation-labor	110,266.42	-----	110,266.42
942 Ordinary maintenance and operation-materials & other	25,962.05	-----	25,962.05
943 Ordinary maintenance and operation-contract costs	50,967.85	-----	50,967.85
945 Employee benefit contributions-ordinary maintenance	37,608.01	-----	37,608.01

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2005

FDS Line Item No.	Low Rent Program 14.850a	Capital Fund Program 14.872	Total
General expenses			
961 Insurance premiums	32,892.70	-----	32,892.70
962 Other general expense	1,101.64	-----	1,101.64
963 Payments in lieu of taxes	27,163.69	-----	27,163.69
964 Bad debts- tenant rents	3,395.48	-----	3,395.48
968 Severance expense	6,923.89	-----	6,923.89
969 Total operating expenses	<u>575,596.60</u>	<u>22,151.58</u>	<u>597,748.18</u>
970 Excess (deficit) operating revenue over operating expenses	<u>(42,163.05)</u>	<u>262,372.47</u>	<u>220,209.42</u>
971 Extraordinary maintenance	513.95	-----	513.95
974 Depreciation expense	<u>284,296.25</u>	<u>10,851.55</u>	<u>295,147.80</u>
Total expenses other than total operating	<u>284,810.20</u>	<u>10,851.55</u>	<u>295,661.75</u>
1000 Excess (deficit) of revenue over expenses before operating transfers in (out) and depreciation add back	(326,973.25)	251,520.92	(75,452.33)
1001 Operating transfers in	14,500.00	-----	14,500.00
1002 Operating transfers out	-----	<u>(14,500.00)</u>	<u>(14,500.00)</u>
Excess (deficit) of revenue over expenses after operating transfers in (out) and depreciation add back	<u>\$ (312,473.25)</u>	<u>\$ 237,020.92</u>	<u>\$ (75,452.33)</u>

Sailor

Khan & Co.

Certified Public Accountants

**Report on Compliance and on Internal Control Over Financial Reporting Based
on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

Board of Commissioners
South Haven Housing Commission
South Haven, Michigan

We have audited the financial statements of the South Haven Housing Commission, Michigan, (Commission) as of and for the year ended June 30, 2005, and have issued our report thereon dated October 26, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

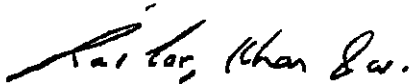
Compliance

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the South Haven Housing Commission, Michigan's management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Sailor, Khan & Co.
October 26, 2005

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

STATUS OF PRIOR AUDIT FINDINGS

June 30, 2005

The prior audit report for the year ended June 30, 2004 contained no audit findings.

SOUTH HAVEN HOUSING COMMISSION

South Haven, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2005

FINANCIAL STATEMENT FINDINGS

The current audit report for the year ended June 30, 2005 disclosed no Financial Statement audit findings.

QUESTIONED COSTS

None